

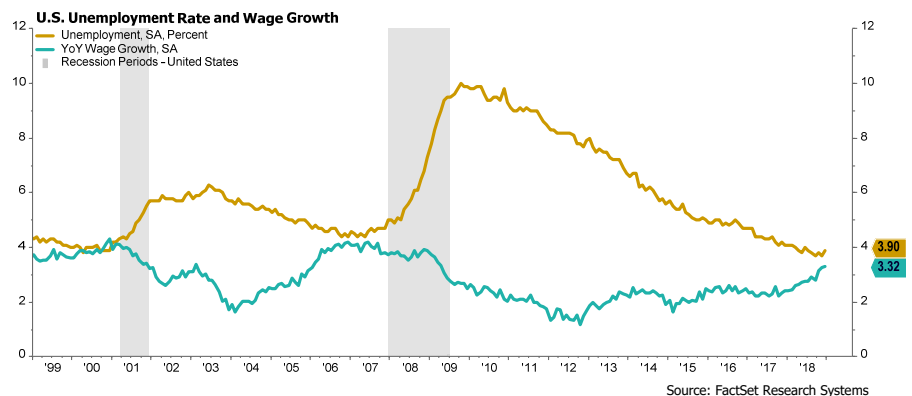
The final months of 2018 brought a great deal of turmoil for investors as risk assets came under pressure amidst heightened volatility. U.S. equities, which reached all-time high levels in late September, sold off significantly and experienced the worst month of December in decades. While the final trading days of the year and the early days of 2019 have been more positive for equities, we expect that heightened volatility is here to stay for some time to come.

## Key Takeaways

- The sharp market selloff in Q4 led global equities to post losses for 2018 and has raised concerns about the future of the nearly 10-year bull market run
- In our view, the selloff was overdone and we expect 2019 to be a modestly positive year for equities
- A slowdown in economic and corporate earnings growth is expected and priced in, but we believe it will stop short of recession
- Overall, we expect 2019 to be a positive but volatile year given the late economic cycle dynamics at play

The market rout in the fourth quarter during which global equities fell nearly 13% had a number of drivers despite the positive signals that continued to be sent from the underlying U.S. economy. Concerns over the pace of interest rate hikes, ongoing uncertainty over trade policy, and fears of contagion from slowing economic growth overseas converged to drive the selloff, leaving both U.S. and international equities to finish the year in the red. Global stocks overall lost more than 9% in 2018.

Though equity performance did not reflect it, the year on the whole was a positive one for the global economy as the expansion continued. Growth became less synchronized than it was in 2017 as the U.S. continued to strengthen while the rest of the globe moderated. GDP growth in the Eurozone was particularly disappointing, with growth forecasts being cut throughout the year. Corporate earnings growth was very strong, especially in the U.S., and inflation rose modestly as the strong global economy started to impact supply chains and low unemployment spurred wage growth.



**Laina M. Mills, CFA, CFP®**  
Chief Investment Officer

As we look forward, it can be tempting to let negative headlines cloud our investment outlook as the ongoing Federal government shutdown, global trade tensions, Brexit, and other geopolitical concerns hang over the markets on a daily basis. However, in our view it is difficult to read the current environment in such a way that indicates the U.S. economy is in danger of decline.

On the contrary, while growth will likely slow now that the short-term boost from tax cuts and government spending increases has faded, most forecasters are calling for U.S. GDP growth of at least 2.25% this year – still quite a healthy level and far outpacing that of other developed markets. The American consumer remains financially healthy thanks to a supportive jobs environment

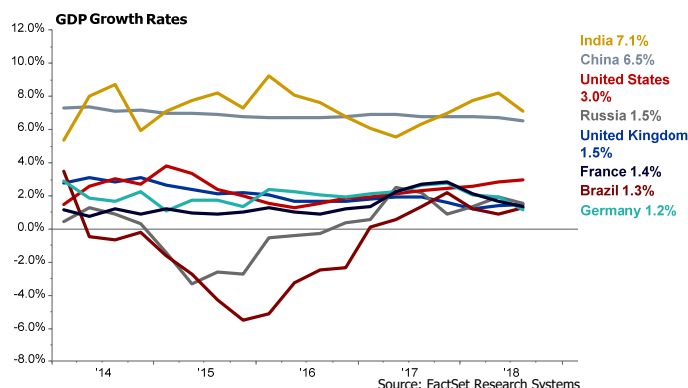
and rising wages, and consumption should continue to drive domestic growth despite the fact that interest rates have moved higher. Inflation remains muted and the Federal Reserve has lowered their expectations for additional rate increases this year; at this point we are only expecting one or two more hikes in 2019. Leading economic indicators, such as the number of weekly initial claims for unemployment insurance and manufacturer's new orders for consumer and capital goods, also continue to point to an expansionary environment.

This positive economic backdrop is supportive for the stock market despite the many potential headwinds. In our opinion, the abrupt selloff in Q4 was overdone and not accompanied by a similar deterioration in fundamentals. While we will likely look back at 2018 as the peak of earnings growth for this cycle, we still expect corporate earnings to grow this year and believe that the market decline helped to price in this lower pace of growth. Valuations on forward earnings now look attractive even with lower earnings growth expected. This environment should justify modest single-digit returns for U.S. equities in 2019 and we are recommending that investors maintain their equity allocations at long-term strategic weights.



The outlook is murkier outside the U.S. We continue to find it difficult to get excited about developed market equities given years of relative underperformance and a weaker current economic environment. European economic growth has been lackluster and several macro concerns continue to loom, including the rise of populism and its impact on policy, the possibility of a messy Brexit, and the local impacts of ongoing global trade disputes. However, corporate earnings in Europe are expected to grow in 2019, and valuations are significantly cheaper than those of U.S. equities. We feel that an underweight

allocation to developed market equities remains appropriate and believe that these markets are poised for a modest lift in 2019 based on earnings growth, valuation and an ongoing – albeit slower – global economic expansion.

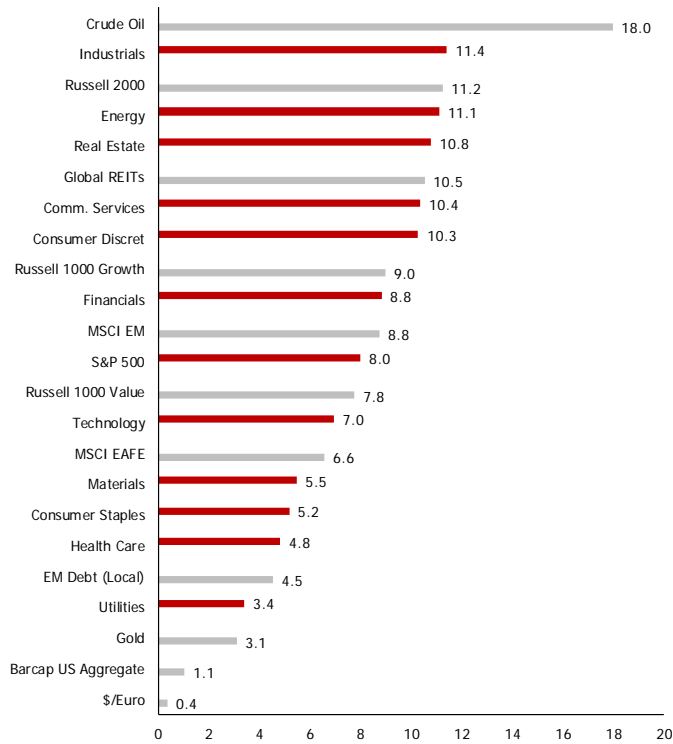


We are more positive on emerging market equities, which suffered a difficult year in 2018 but actually held up much better than developed markets during the selloff in Q4. Rising global trade tensions, particularly between the U.S. and China, weighed heavily on these stocks as did rising interest rates and the strengthening U.S. dollar. While these headwinds aren't likely to go away completely, their impact should be less in 2019 and emerging market equities enjoy the most favorable valuations of any segment of the market today. We expect EM equities to be highly volatile as their performance will be closely tied to trade developments, but the fundamental conditions in EMs including higher GDP growth, corporate earnings growth expectations, and favorable demographic trends present a meaningful growth opportunity for investors that are prepared for some bumps along the way.

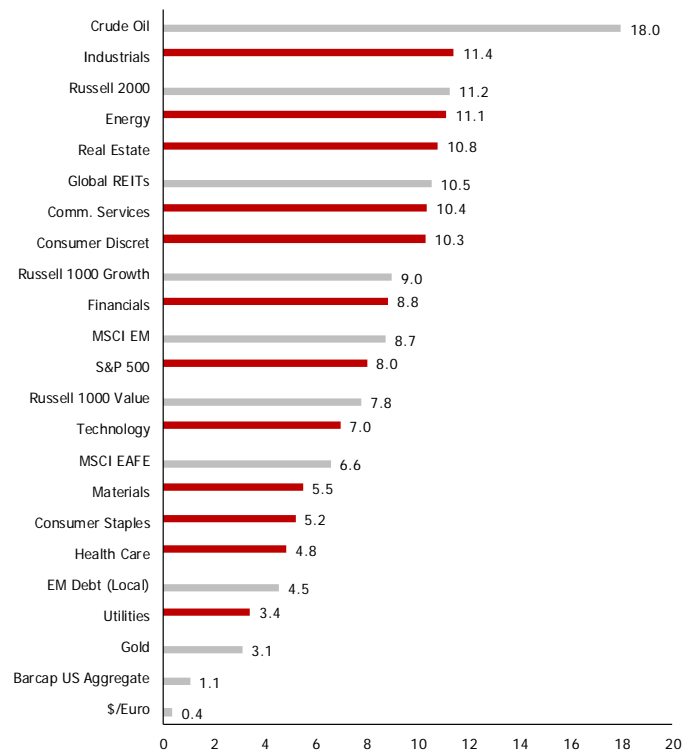
Fixed income investments were showing losses for the first part of 2018 but rallied in Q4 as investors fled to safety during the equity market selloff. Now that short-term interest rates have risen, cash equivalents and short-duration bonds are providing decent yields to investors – in fact, cash was the best performing asset class in 2018 with its 2% return. In addition to providing current yield, core fixed income continues to play a role in diversified portfolios as a stabilizer during turbulent markets, which will be more important than ever as we move further into the late stages of the economic cycle.



## Month to Date Performance by Asset Class



## Year to Date Performance by Asset Class

Performance by Asset Class  
Month-to-Month

## Year to Date

## U.S. Equity

	Value	Core	Growth
Large	7.78%	8.38%	8.99%
Mid	10.29%	10.79%	11.49%
Small	10.94%	11.25%	11.55%

## U.S. Equity

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## International Equity

	Value	Core	Growth
Large	7.31%	7.50%	7.72%
Mid	8.79%	7.87%	7.31%
Small	7.62%	7.84%	8.07%

## International Equity

	Value	Core	Growth
Large	7.28%	7.49%	7.72%
Mid	8.80%	7.88%	7.31%
Small	7.58%	7.81%	8.05%

## U.S. Fixed Income

	Short	Intermed	Long
Government	0.27%	0.43%	0.67%
Corporate	1.09%	2.47%	3.14%
High Yield	3.70%	4.45%	5.96%

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## U.S. Economic Releases

## This Month

- Jan Nonfarm Payrolls +304.0K, well above consensus and prior
- Jan Unemployment Rate 4.0%, up from prior due to increasing workforce participation
- Jan Average Hourly Earnings +3.2% Y/Y, in line with consensus
- Jan ISM Manufacturing Index 56.6, above prior and consensus
- Nov New Home Sales 657.0K, above prior and consensus
- Nov S&P Case-Schiller Home Prices Index +0.30% M/M, below prior and consensus
- Jan Conference Board Consumer Confidence Survey 120.2, below prior
- Dec Pending Home Sales -2.2% M/M, below prior and consensus
- Dec Nonfarm Payrolls +312.0K, above consensus
- Dec Avg Hourly Earnings +0.4% M/M
- Dec Unemployment Rate 3.9%, up from prior
- Dec ISM Manufacturing Index 54.1, below consensus
- Jan NAHB Housing Market Index 58.0, above prior and consensus
- U of M Consumer Sentiment 90.7, below prior and consensus
- Dec Existing Home Sales 4.990M, below prior and consensus
- Dec Conference Board Leading Indicators -0.10%, below prior



Equities	1 Month	3 Month	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Yield
S&P 500	8.01%	0.26%	8.01%	8.01%	-2.31%	13.94%	10.92%	14.95%	1.94%
Communications Services	10.37%	1.66%	10.37%	10.37%	-3.97%	3.29%	5.28%	9.68%	1.42%
Consumer Discretionary	10.30%	3.90%	10.30%	10.30%	1.70%	15.10%	13.19%	20.77%	1.23%
Consumer Staples	5.19%	-2.54%	5.19%	5.19%	-5.11%	4.60%	8.45%	12.35%	2.93%
Energy	11.11%	-4.56%	11.11%	11.11%	-12.29%	5.73%	-2.28%	4.92%	3.21%
Financials	8.84%	-0.73%	8.84%	8.84%	-11.06%	15.84%	10.79%	15.28%	2.04%
Health Care	4.84%	2.57%	4.84%	4.84%	4.65%	12.72%	11.93%	15.28%	1.62%
Industrials	11.41%	3.32%	11.41%	11.41%	-8.23%	13.74%	9.24%	15.40%	2.03%
Materials	5.49%	2.19%	5.49%	5.49%	-13.55%	13.22%	5.93%	12.45%	2.02%
Real Estate	10.79%	8.36%	10.79%	10.79%	10.37%	9.12%	10.42%	16.81%	3.13%
Technology	6.96%	-3.93%	6.96%	6.96%	-0.90%	20.88%	17.03%	19.46%	1.56%
Utilities	3.43%	2.82%	3.43%	3.43%	11.04%	10.13%	10.80%	10.86%	3.32%
DJIA	7.29%	0.14%	7.29%	7.29%	-2.18%	17.67%	12.40%	14.94%	2.43%
NASDAQ	9.79%	-0.04%	9.79%	9.79%	-0.68%	15.70%	12.24%	17.95%	1.18%
Russell 3000	8.58%	0.45%	8.58%	8.58%	-2.25%	14.12%	10.38%	15.07%	2.06%
Russell 1000 Growth	8.99%	0.68%	8.99%	8.99%	0.24%	16.50%	12.93%	16.80%	1.37%
Russell 1000 Value	7.78%	0.34%	7.78%	7.78%	-4.79%	11.55%	8.30%	13.34%	2.81%
Russell Midcap	10.79%	2.25%	10.79%	10.79%	-2.89%	13.22%	8.86%	16.03%	1.94%
Russell 2500	11.51%	1.17%	11.51%	11.51%	-2.60%	14.34%	7.93%	15.42%	1.78%
Russell 2000	11.25%	-0.41%	11.25%	11.25%	-3.51%	14.63%	7.24%	14.46%	1.58%
MSCI AC World	7.93%	1.88%	7.93%	7.92%	-6.95%	12.17%	7.28%	11.84%	2.68%
MSCI AC World ex USA	7.57%	3.73%	7.57%	7.56%	-12.10%	10.06%	3.58%	8.81%	3.38%
MSCI EAFE	6.59%	1.32%	6.59%	6.58%	-12.02%	8.23%	3.13%	8.58%	3.58%
MSCI Europe	6.61%	0.78%	6.61%	6.61%	-13.30%	7.31%	2.05%	8.71%	3.77%
MSCI Japan	6.10%	-0.56%	6.10%	6.10%	-11.27%	8.85%	5.44%	6.93%	2.51%
MSCI EAFE Small Cap	8.06%	0.41%	8.06%	8.04%	-15.22%	9.74%	5.34%	12.44%	2.90%
MSCI EM (Emerging Markets)	8.76%	10.32%	8.76%	8.73%	-13.85%	15.23%	5.14%	9.99%	2.89%
MSCI EM Asia	7.33%	9.36%	7.33%	7.28%	-15.65%	14.37%	6.79%	11.65%	2.76%
MSCI EM Eastern Europe	10.99%	10.03%	10.99%	10.99%	-3.51%	21.46%	3.08%	9.77%	6.41%
MSCI EM Latin America	14.96%	11.63%	14.96%	14.96%	-4.73%	22.50%	3.40%	6.75%	2.49%
Fixed Income	1 Month	3 Month	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Yield
Bloomberg Barclays US Aggregate	0.35%	-0.36%	0.70%	0.70%	2.57%	1.76%	2.32%	3.65%	3.23%
Bloomberg Barclays Municipal State GO (10 Y)	0.37%	-0.06%	0.99%	0.99%	4.79%	1.85%	3.35%	4.19%	2.40%
Bloomberg Barclays Global Aggregate USD	0.36%	-0.34%	0.76%	0.76%	2.52%	1.88%	2.39%	3.75%	3.30%
Barclays US T-Bill 1-3 Month	0.05%	0.03%	0.23%	0.23%	1.94%	1.04%	0.63%	0.36%	2.38%
Barclays US High Yield	0.99%	0.24%	4.77%	4.77%	2.37%	9.77%	4.67%	10.91%	6.86%
Bbg EM Gov't Diversified	1.74%	-0.12%	4.42%	4.42%	-4.09%	6.29%	1.57%	--	5.83%
Barclays TIPS	0.83%	-0.45%	0.89%	0.89%	1.21%	1.86%	1.43%	3.57%	2.88%
Other	1 Month	3 Month	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Yield
FTSE NAREIT	4.70%	11.42%	11.42%	11.42%	10.51%	9.85%	9.88%	15.54%	3.87%
Alerian MLP	2.04%	12.64%	12.64%	12.64%	-6.70%	7.03%	-5.17%	9.30%	7.70%
Bloomberg Commodity	0.69%	5.45%	5.45%	5.45%	-8.20%	2.65%	-7.86%	-2.73%	
US Dollar Index	-1.01%	-0.31%	-0.31%	-0.31%	10.34%	-0.22%	3.31%	-0.10%	
Interest Rates	12/31/18	10/31/18	12/31/18	12/31/18	1/31/18	1/29/16	1/31/14	1/30/09	
US Treasury Constant Maturity - 2 Year	2.48%	2.87%	2.48%	2.48%	2.14%	0.76%	0.34%	0.94%	
US Treasury Constant Maturity - 5 Year	2.51%	2.98%	2.51%	2.51%	2.52%	1.33%	1.49%	1.85%	
US Treasury Constant Maturity - 10 Year	2.69%	3.15%	2.69%	2.69%	2.72%	1.94%	2.67%	2.87%	
Germany Benchmark Bond - 10 Year	0.24%	0.39%	0.24%	0.24%	0.69%	0.32%	1.66%	3.29%	
Japan Benchmark Bond - 10 Year	-0.01%	0.12%	-0.01%	-0.01%	0.08%	0.10%	0.62%	1.29%	
Mexico Benchmark Bond - 10 Year	8.71%	8.89%	8.71%	8.71%	7.60%	6.03%	6.64%	7.69%	
30 Year Fixed-Rate Mortgages, Average, US	4.51%	4.75%	4.51%	4.51%	4.18%	3.76%	4.26%	5.05%	
US Prime Rate	5.50%	5.25%	5.50%	5.50%	4.50%	3.50%	3.25%	3.25%	



Performance from the style boxes comes from the following, in order of left-to-right then top-to-bottom:

- **US Equity Style Box:** Russell 1000 Value Index - Total Return; Russell 1000 Index - Total Return; Russell 1000 Growth Index - Total Return; Russell Midcap Value Index - Total Return; Russell Midcap Index - Total Return; Russell Midcap Growth Index - Total Return; Russell 2000 Value Index - Total Return; Russell 2000 Index - Total Return; Russell 2000 Growth Index - Total Return
- **International Equity Style Box:** MSCI AC World ex USA Large Cap Value Index - Total Return; MSCI AC World ex USA Large Cap Index - Total Return; MSCI AC World ex USA Large Cap Growth Index - Total Return; MSCI AC World ex USA Mid Cap Value Index - Total Return; MSCI AC World ex USA Mid Cap Index - Total Return; MSCI AC World ex USA Mid Cap Growth Index - Total Return; MSCI AC World ex USA Small Cap Value Index - Total Return; MSCI AC World ex USA Small Cap Index - Total Return; MSCI AC World ex USA Small Cap Growth Index - Total Return
- **U.S. Fixed Income Style Box:** Bloomberg Barclays Global US Treasury Index (1-3 Y); Bloomberg Barclays Global US Treasury Index - Intermediate; Bloomberg Barclays Global US Treasury Index - Long; Vanguard ST Corporate Bond ETF; Vanguard Int Corporate Bond ETF; Vanguard LT Corp Bond ETF; Bloomberg Barclays US High Yield Index (1-5Y); Bloomberg Barclays US Aggregate Credit Index - Corporate - High Yield - Intermediate; Bloomberg Barclays US Aggregate Credit Index - Corporate - High Yield - Long

Index yields were used for the S&P 500 and its sectors, while ETF yields were used as proxies for all other indexes. The iShares Russia ETF was used as a proxy for the MSCI EM Eastern Europe Index yield as Russia comprises nearly 70% of the index.  
FTSE NAREIT returns are lagged by one day.

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